

**MILFORD MUNICIPAL UTILITIES**

INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
JUNE 30, 2010 AND 2009

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MILFORD MUNICIPAL UTILITIES  
MILFORD, IOWA

JUNE 30, 2010

OFFICIALS  
(Before January 2010)

| <u>NAME</u>  | <u>TITLE</u>            | <u>TERM EXPIRES</u> |
|--------------|-------------------------|---------------------|
| James Studer | Trustee (Chairman)      | December 31, 2013   |
| Steve Feld   | Trustee (Vice Chairman) | December 31, 2012   |
| Keith Wurtz  | Trustee                 | December 31, 2014   |
| Tom Cooper   | Trustee                 | December 31, 2009   |
| Don Olsen    | Trustee                 | December 31, 2011   |

OFFICIALS  
(After January 1, 2010)

|              |                         |                   |
|--------------|-------------------------|-------------------|
| James Studer | Trustee (Chairman)      | December 31, 2013 |
| Steve Feld   | Trustee (Vice-Chairman) | December 31, 2012 |
| Keith Wurtz  | Trustee                 | December 31, 2014 |
| Tom Cooper   | Trustee                 | December 31, 2015 |
| Don Olsen    | Trustee                 | December 31, 2011 |

|            |                 |
|------------|-----------------|
| Eric Stoll | General Manager |
|------------|-----------------|

|                |                                  |
|----------------|----------------------------------|
| Paula Nordblad | Office Manager / Board Secretary |
|----------------|----------------------------------|

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

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P.O. Box 175  
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FAX 712-338-2510

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INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Milford Municipal Utilities  
Milford, IA 51351

We have audited the accompanying financial statements of the business-type activities and each major fund of Milford Municipal Utilities (Utilities), a component unit of the City of Milford, as of and for the year ended June 30, 2010, which collectively comprise Milford Municipal Utilities' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Milford Municipal Utilities as of June 30, 2009 were audited by other auditors whose report dated October 29, 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Milford Municipal Utilities at June 30, 2010, and the respective changes in the funds' financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2010 on our consideration of Milford Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *General Auditing Standards*, and should be considered in accessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 27 and 28 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise Milford Municipal Utilities' basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Wintner, Stave & Co., LLP*

November 1, 2010

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Milford Municipal Utilities (MMU) provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### **2009 - 2010 FINANCIAL HIGHLIGHTS**

- MMU's operating revenues increased 7.4%, or approximately \$236,273, from fiscal 2009 to fiscal 2010.
- Operating expenses increased by approximately \$191,394 in fiscal 2010 from fiscal 2009.
- The MMU's net assets increase 2.1% or approximately \$188,863 during 2010.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the MMU's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of MMU as a whole and present an overall view of MMU's finances.

Fund financial statements report MMU's operations in more detail by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the MMU's budget for the year.

The Other Supplementary Information in Schedule 1 is unaudited and provides detailed information about the usage levels of each utility.

### **REPORTING MMU'S FINANCIAL ACTIVITIES**

#### **Fund Financial Statements**

Milford Municipal Utilities utilizes one kind of fund:

Proprietary funds account for MMU's Enterprise Funds. Enterprise Funds are used to report business type activities. MMU maintains two Enterprise funds to provide separate information for the electric and water funds, all are considered to be major funds of MMU.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in net assets.

| Net Assets of Business Type Activities     |                     |                     |
|--|---------------------|---------------------|
| Year Ended June 30,                        | 2010                | 2009                |
| Current and other assets .....             | \$ 2,943,156        | \$ 3,162,621        |
| Capital assets - net of depreciation ..... | 11,333,146          | 10,586,707          |
| Total assets                               | <u>14,276,302</u>   | <u>13,749,328</u>   |
| Long-term debt outstanding .....           | 4,790,701           | 4,465,196           |
| Other liabilities .....                    | 381,965             | 369,359             |
| Total liabilities                          | <u>5,172,666</u>    | <u>4,834,555</u>    |
| Net assets:                                |                     |                     |
| Invested in capital assets .....           | 6,869,006           | 6,447,391           |
| Restricted .....                           | 368,081             | 133,323             |
| Unrestricted .....                         | 1,866,549           | 2,334,059           |
| Total net assets                           | <u>\$ 9,103,636</u> | <u>\$ 8,914,773</u> |

The following analysis focuses on the change in net assets for the combined divisions of MMU:

| Net Assets of Business Type Activities |                     |                     |
|--|---------------------|---------------------|
| Year Ended June 30,                    | 2010                | 2009                |
| Revenues:                              |                     |                     |
| Charges for service .....              | \$ 3,421,904        | \$ 3,185,631        |
| General revenues:                      |                     |                     |
| Unrestricted investment earnings ..... | 25,613              | 27,318              |
| Total revenues                         | <u>3,447,517</u>    | <u>3,212,949</u>    |
| Program expenses:                      |                     |                     |
| Business type activities .....         | 3,258,654           | 2,964,630           |
| Total expenses                         | <u>3,258,654</u>    | <u>2,964,630</u>    |
| Increase in net assets                 | 188,863             | 248,319             |
| Net assets - beginning of year .....   | <u>8,914,773</u>    | <u>8,666,454</u>    |
| Net assets - end of year               | <u>\$ 9,103,636</u> | <u>\$ 8,914,773</u> |

## **INDIVIDUAL MAJOR FUND ANALYSIS**

As Milford Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$9.1 million, an increase of approximately \$188,863 over last year's total of \$8.91 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- Electric Fund revenues showed an increase of \$241,745 due to increased sales to customers and increased Neal #4 and diesel credits. The Electric Fund expenses increased \$287,957, attributable to the increase in expense associated with community development, energy efficiency, interest, and depreciation expense. The ending fund balance was \$6,247,480, an increase of \$152,637 from last year.
- Water Fund revenues decreased by \$7,177 during 2010 as compared to 2009. Expenses increased \$6,067, which can be attributed to wages and payroll expense as compared to the prior year. The ending fund balance was \$2,856,156, an increase of \$36,226 from the prior year.

## **BUDGETARY HIGHLIGHTS**

MMU's disbursements for business type activities did not exceed the budgeted limit for 2010.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2010, MMU had approximately \$11.3 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase (including additions and deletions net of depreciation) of approximately \$746,439 or 7.1% as compared with last year. Depreciation charges totaled \$493,391 for the fiscal year 2010. Total accumulated depreciation was \$9,124,289 at June 30, 2010. See Note 3 to the financial statements for more information about MMU's capital assets.

## **LONG-TERM DEBT/LIABILITIES**

At June 30, 2010, MMU had \$4,790,701 in revenue bonds outstanding compared to \$4,465,196 at June 30, 2009. Additional information about MMU's long-term debt is presented in Note 4 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Milford Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery for the utmost in reliable products and services.

For 2009, the MMU electric department had a new substation transformer installed along with a new industrial circuit and associated equipment in the substation. At June 30, 2010, this project was near completion and expected to be complete before winter. MMU is in the franchise stage of building a transmission line. Cornbelt will cost share in this project. Work may begin the summer of 2011.



Consistent with the need to invest for the future, MMU joined with other Cities and Utilities back in 1962 to purchase power from the dams on the Missouri River. We have enjoyed receiving this renewable energy ever since. You could say that Milford had the foresight 47 years ago to invest in renewable energy. In 1976, MMU power supplies were once again getting tight and MMU needed to invest in an additional power source, so MMU became one of the owners of the Neal #4 Generating Station south of Sioux City. In 1997, MMU put an additional 6 MW of diesel generators to the existing 1 MW of older generation in our local power plant, of which all are used for peaking and emergency power use. Once again MMU joined with other Iowa utilities to take the lead in partnering in renewable energy sources by moving into wind generation. MMU has a share in the Hancock wind Farm that was put up in 2005 south of Ventura, Iowa in which we received 674,444 kwh of electricity in 2009. MMU also has a share in the Crosswinds Wind Farm south of Ruthven from which we received 715,319 kwh of electricity in 2009. This amounts to a combined total of 40% of our requirements for renewable energy. MMU is looking into another wind farm from which we hope to receive an additional 5,025,800 kwh's per year which would give us a total of 20% Renewable Portfolio Standard (RPS) by 2020. So you can see the goal is simple: try to use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment. Even with the additional wind resources MMU will still need a reliable baseload or intermediate resource to cover our expected load growth, replace existing aging power supplies, and to cover periods when the wind doesn't blow. MMU had planned to purchase 2 MW of Sutherland Generating station Unit 4 near Marshalltown, with several other private and consumer owned utilities in Iowa. Unfortunately Alliant Energy, the main project participant, chose to cancel the plant due to actions taken by the Iowa Utilities Board. MMU is now exploring other options to ensure a safe, reliable backup to wind generation. This includes possible agreements with other power suppliers and the installation of natural gas powered turbines.

For the Water Department, we are doing a study in conjunction with the City of Milford to coordinate the replacement of water mains with the streets and sewer lines that need to be replaced.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MMU's finances and operating activities. If you have questions about this report or need additional information, please contact management at 806 N Ave., Milford, Iowa 51351.

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF NET ASSETS  
JUNE 30, 2010 AND 2009

|  | <u>Business-Type Activities</u> |                     |
|--|---------------------------------|---------------------|
|  | <u>2010</u>                     | <u>2009</u>         |
| ASSETS:  |                                 |                     |
| Cash and cash equivalents .....  | \$ 1,087,453                    | \$ 566,142          |
| Accounts receivable .....  | 372,689                         | 363,073             |
| Inventory .....  | 548,190                         | 1,206,964           |
| Other current assets .....   | 109,132                         | 248,097             |
| Restricted assets .....  | 786,621                         | 738,251             |
| Other assets .....   | 39,071                          | 40,094              |
| Other assets not being depreciated .....                                 | 2,144,390                       | 1,136,933           |
| Capital assets being depreciated - net of accumulated depreciation ..... | <u>9,188,756</u>                | <u>9,449,774</u>    |
| TOTAL ASSETS   | <u>14,276,302</u>               | <u>13,749,328</u>   |
| LIABILITIES:   |                                 |                     |
| Accounts payable .....   | 239,928                         | 244,563             |
| Accrued interest .....   | 17,778                          | 17,157              |
| Salaries and benefits payable .....                                      | 49,331                          | 23,805              |
| Accrued expenses .....   | 32,904                          | 37,446              |
| Consumers' deposits .....  | 42,024                          | 46,388              |
| Long-term liabilities:   |                                 |                     |
| Due or payable within one year:  |                                 |                     |
| Revenue bonds/notes .....  | 463,989                         | 458,840             |
| Due or payable after one year:   |                                 |                     |
| Revenue bonds/notes .....  | <u>4,326,712</u>                | <u>4,006,356</u>    |
| TOTAL LIABILITIES  | <u>5,172,666</u>                | <u>4,834,555</u>    |
| NET ASSETS:  |                                 |                     |
| Invested in capital assets - net of related debt .....                   | <u>6,869,006</u>                | <u>6,447,391</u>    |
| Restricted:  |                                 |                     |
| Debt service .....   | 179,109                         |                     |
| Capital projects .....   | <u>188,972</u>                  | <u>133,323</u>      |
| Total Restricted   | 368,081                         | 133,323             |
| Unrestricted .....   | <u>1,866,549</u>                | <u>2,334,059</u>    |
| TOTAL NET ASSETS   | <u>\$ 9,103,636</u>             | <u>\$ 8,914,773</u> |

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

|                                      | <u>Business-Type Activities</u> |                     |
|--------------------------------------|---------------------------------|---------------------|
|                                      | <u>2010</u>                     | <u>2009</u>         |
| OPERATING REVENUES:                  |                                 |                     |
| Residential .....                    | \$ 1,478,475                    | \$ 1,355,258        |
| Commercial .....                     | 837,507                         | 759,461             |
| Demand .....                         | 501,391                         | 527,620             |
| Tank lot water sales .....           | 2,052                           | 2,182               |
| Meters sales .....                   | 9,228                           | 10,624              |
| Public authorities .....             | 51,604                          | 64,721              |
| Water department .....               | 22,500                          | 27,214              |
| Neal #4 credits .....                | 279,607                         | 220,682             |
| Diesel credits .....                 | 225,821                         | 182,647             |
| Consumer penalties .....             | 5,023                           | 3,488               |
| Miscellaneous income .....           | 8,696                           | 31,734              |
| TOTAL OPERATING REVENUES             | <u>3,421,904</u>                | <u>3,185,631</u>    |
| OPERATING EXPENSES:                  |                                 |                     |
| Direct costs .....                   | 1,481,813                       | 1,424,076           |
| Operating expenses .....             | 466,595                         | 439,956             |
| Administrative expenses .....        | 989,209                         | 882,191             |
| TOTAL OPERATING EXPENSES             | <u>2,937,617</u>                | <u>2,746,223</u>    |
| OPERATING INCOME                     | <u>484,287</u>                  | <u>439,408</u>      |
| NON-OPERATING INCOME (EXPENSE):      |                                 |                     |
| Interest income .....                | 6,589                           | 19,441              |
| Other income .....                   | 9,268                           | 7,877               |
| Gain on sale of assets .....         | 175                             |                     |
| Loss on investment .....             | (95,731)                        |                     |
| Interest expense .....               | (225,306)                       | (218,407)           |
| TOTAL NON-OPERATING INCOME (EXPENSE) | <u>(305,005)</u>                | <u>(191,089)</u>    |
| INCOME BEFORE CONTRIBUTIONS          | 179,282                         | 248,319             |
| CONTRIBUTION FROM DEVELOPERS .....   | <u>9,581</u>                    | <u></u>             |
| CHANGE IN NET ASSETS                 | 188,863                         | 248,319             |
| NET ASSETS - BEGINNING OF YEAR ..... | <u>8,914,773</u>                | <u>8,666,454</u>    |
| NET ASSETS - END OF YEAR             | <u>\$ 9,103,636</u>             | <u>\$ 8,914,773</u> |

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF FUND NET ASSETS  
JUNE 30, 2010  
(with comparative totals for 2009)

ASSETS

|   | Electric<br>Fund    | Water<br>Fund       | Total<br>2010       | Total<br>2009       |
|---|---------------------|---------------------|---------------------|---------------------|
| <b>CURRENT ASSETS:</b>                        |                     |                     |                     |                     |
| Cash and cash equivalents:                    |                     |                     |                     |                     |
| Unrestricted, undesignated .....              | \$ 629,502          | \$ 7,693            | \$ 637,195          | \$ 101,478          |
| Board designated:                             |                     |                     |                     |                     |
| Improvement and extension .....               | 53,359              | 180,620             | 233,979             | 221,516             |
| Vehicle and equipment funds .....             | 87,274              | 46,484              | 133,758             | 126,793             |
| Fuel oil fund .....                           | 12,675              |                     | 12,675              | 12,654              |
| Community development fund .....              | 69,846              |                     | 69,846              | 103,701             |
| Total cash and cash equivalents               | 852,656             | 234,797             | 1,087,453           | 566,142             |
| Accounts receivable .....                     | 265,193             | 107,496             | 372,689             | 363,073             |
| Inventory .....                               | 505,273             | 42,917              | 548,190             | 1,206,964           |
| Prepaid expenses .....                        | 26,172              | 16,048              | 42,220              | 61,280              |
| Other receivables .....                       | 66,912              |                     | 66,912              | 186,817             |
| <b>TOTAL CURRENT ASSETS</b>                   | <b>1,716,206</b>    | <b>401,258</b>      | <b>2,117,464</b>    | <b>2,384,276</b>    |
| <b>NONCURRENT ASSETS:</b>                     |                     |                     |                     |                     |
| Other assets:                                 |                     |                     |                     |                     |
| Purchased service rights - at cost .....      | 13,470              |                     | 13,470              | 13,470              |
| CTS - acquisition costs (net) .....           | 19,827              |                     | 19,827              | 26,624              |
| Bond issue cost (net) .....                   | 5,774               |                     | 5,774               |                     |
| Total other assets                            | 39,071              |                     | 39,071              | 40,094              |
| Restricted assets:                            |                     |                     |                     |                     |
| Consumers' deposit fund .....                 | 59,151              |                     | 59,151              | 63,319              |
| Revenue bond sinking fund .....               | 37,663              | 26,404              | 64,067              | 63,960              |
| Principal and interest reserve .....          |                     | 115,042             | 115,042             | 114,848             |
| CTS - improvement fund .....                  | 188,972             |                     | 188,972             | 133,323             |
| Sewer fund - district and city .....          | 2,268               |                     | 2,268               | 9,983               |
| Loan proceeds for future capital improvements |                     | 326,561             | 326,561             | 325,880             |
| Emission allowances .....                     | 16,544              |                     | 16,544              | 24,938              |
| Engine maintenance .....                      | 14,016              |                     | 14,016              | 2,000               |
| Total restricted assets                       | 318,614             | 468,007             | 786,621             | 738,251             |
| <b>TOTAL NONCURRENT ASSETS</b>                | <b>357,685</b>      | <b>468,007</b>      | <b>825,692</b>      | <b>778,345</b>      |
| <b>CAPITAL ASSETS:</b>                        |                     |                     |                     |                     |
| Capital assets .....                          | 13,613,773          | 6,843,662           | 20,457,435          | 19,223,942          |
| Accumulated depreciation .....                | (6,367,865)         | (2,756,424)         | (9,124,289)         | (8,637,235)         |
| <b>NET CAPITAL ASSETS</b>                     | <b>7,245,908</b>    | <b>4,087,238</b>    | <b>11,333,146</b>   | <b>10,586,707</b>   |
| <b>TOTAL ASSETS</b>                           | <b>\$ 9,319,799</b> | <b>\$ 4,956,503</b> | <b>\$14,276,302</b> | <b>\$13,749,328</b> |

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF FUND NET ASSETS - Continued  
JUNE 30, 2010  
(with comparative totals for 2009)

LIABILITIES AND FUND NET ASSETS

|   | Electric<br>Fund    | Water<br>Fund       | Total<br>2010       | Total<br>2009       |
|---|---------------------|---------------------|---------------------|---------------------|
| <b>CURRENT LIABILITIES:</b>                           |                     |                     |                     |                     |
| Accounts payable .....                                | \$ 222,575          | \$ 17,353           | \$ 239,928          | \$ 244,563          |
| Accrued employee benefits .....                       | 14,241              | 6,487               | 20,728              | 19,468              |
| Accrued interest .....                                | 10,440              | 7,338               | 17,778              | 17,157              |
| Accrued payroll .....                                 | 15,794              | 7,179               | 22,973              |                     |
| Accrued payroll taxes .....                           | 3,880               | 1,750               | 5,630               | 4,337               |
| Accrued sales tax .....                               | 6,293               | 3,853               | 10,146              | 8,418               |
| Accrued property tax .....                            | 14,075              |                     | 14,075              | 14,085              |
| Accrued wheeling .....                                | 8,683               |                     | 8,683               | 14,943              |
| Consumers' deposits .....                             | 42,024              |                     | 42,024              | 46,388              |
| Current portion long-term debt .....                  | <u>254,236</u>      | <u>209,753</u>      | <u>463,989</u>      | <u>458,840</u>      |
| <b>TOTAL CURRENT LIABILITIES</b>                      | <u>592,241</u>      | <u>253,713</u>      | <u>845,954</u>      | <u>828,199</u>      |
| <b>LONG-TERM DEBT (Note 4):</b>                       |                     |                     |                     |                     |
| Revenue capital notes payable .....                   | 2,734,314           | 2,056,387           | 4,790,701           | 4,465,196           |
| Less current portion above .....                      | <u>(254,236)</u>    | <u>(209,753)</u>    | <u>(463,989)</u>    | <u>(458,840)</u>    |
| <b>TOTAL LONG-TERM DEBT</b>                           | <u>2,480,078</u>    | <u>1,846,634</u>    | <u>4,326,712</u>    | <u>4,006,356</u>    |
| <b>TOTAL LIABILITIES</b>                              | <u>3,072,319</u>    | <u>2,100,347</u>    | <u>5,172,666</u>    | <u>4,834,555</u>    |
| <b>FUND NET ASSETS:</b>                               |                     |                     |                     |                     |
| Invested in capital assets - net of related debt .... | <u>4,511,594</u>    | <u>2,357,412</u>    | <u>6,869,006</u>    | <u>6,447,391</u>    |
| Restricted:   |                     |                     |                     |                     |
| Debt service .....                                    | 37,663              | 141,446             | 179,109             |                     |
| Capital projects .....                                | <u>188,972</u>      |                     | <u>188,972</u>      | <u>133,323</u>      |
| Total restricted                                      | <u>226,635</u>      | <u>141,446</u>      | <u>368,081</u>      | <u>133,323</u>      |
| Unrestricted .....                                    | <u>1,509,251</u>    | <u>357,298</u>      | <u>1,866,549</u>    | <u>2,334,059</u>    |
| <b>TOTAL FUND NET ASSETS</b>                          | <u>6,247,480</u>    | <u>2,856,156</u>    | <u>9,103,636</u>    | <u>8,914,773</u>    |
| <b>TOTAL LIABILITIES AND FUND<br/>NET ASSETS</b>      | <u>\$ 9,319,799</u> | <u>\$ 4,956,503</u> | <u>\$14,276,302</u> | <u>\$13,749,328</u> |

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010  
(with comparative totals for 2009)

|   | Electric<br>Fund   | Water<br>Fund      | Total<br>2010      | Total<br>2009      |
|---|--------------------|--------------------|--------------------|--------------------|
| OPERATING REVENUES:                       |                    |                    |                    |                    |
| Residential .....                         | \$1,125,197        | \$ 353,278         | \$1,478,475        | \$1,355,258        |
| Commercial .....                          | 527,676            | 309,831            | 837,507            | 759,461            |
| Demand .....                              | 501,391            |                    | 501,391            | 527,620            |
| Tank lot water sales .....                |                    | 2,052              | 2,052              | 2,182              |
| Meter sales .....                         |                    | 9,228              | 9,228              | 10,624             |
| Public authorities .....                  | 51,604             |                    | 51,604             | 64,721             |
| Water department .....                    | 22,500             |                    | 22,500             | 27,214             |
| Neal #4 credits .....                     | 279,607            |                    | 279,607            | 220,682            |
| Diesel credits .....                      | 225,821            |                    | 225,821            | 182,647            |
| Consumer penalties .....                  | 4,227              | 796                | 5,023              | 3,488              |
| Miscellaneous income .....                | 4,907              | 3,789              | 8,696              | 31,734             |
| TOTAL OPERATING REVENUES                  | <u>2,742,930</u>   | <u>678,974</u>     | <u>3,421,904</u>   | <u>3,185,631</u>   |
| OPERATING EXPENSES:                       |                    |                    |                    |                    |
| Direct costs .....                        | 1,391,548          | 90,265             | 1,481,813          | 1,424,076          |
| Operating expenses .....                  | 307,029            | 159,566            | 466,595            | 439,956            |
| Administrative expenses .....             | 673,214            | 315,995            | 989,209            | 882,191            |
| TOTAL OPERATING EXPENSES                  | <u>2,371,791</u>   | <u>565,826</u>     | <u>2,937,617</u>   | <u>2,746,223</u>   |
| OPERATING INCOME                          | <u>371,139</u>     | <u>113,148</u>     | <u>484,287</u>     | <u>439,408</u>     |
| NON-OPERATING INCOME (EXPENSE):           |                    |                    |                    |                    |
| Interest income .....                     | 3,662              | 2,927              | 6,589              | 19,441             |
| Other income .....                        | 6,656              | 2,612              | 9,268              | 7,877              |
| Gain on sale of assets .....              | 175                |                    | 175                |                    |
| Loss on investment .....                  | (95,731)           |                    | (95,731)           |                    |
| Interest expense .....                    | <u>(133,264)</u>   | <u>(92,042)</u>    | <u>(225,306)</u>   | <u>(218,407)</u>   |
| TOTAL NON-OPERATING<br>INCOME (EXPENSE)   | <u>(218,502)</u>   | <u>(86,503)</u>    | <u>(305,005)</u>   | <u>(191,089)</u>   |
| INCOME BEFORE CONTRIBUTIONS               | 152,637            | 26,645             | 179,282            | 248,319            |
| CAPITAL CONTRIBUTIONS:                    |                    |                    |                    |                    |
| Contributions from developers .....       |                    | <u>9,581</u>       | <u>9,581</u>       |                    |
| CHANGE IN FUND NET ASSETS                 | 152,637            | 36,226             | 188,863            | 248,319            |
| FUND NET ASSETS - BEGINNING OF YEAR ..... | <u>6,094,843</u>   | <u>2,819,930</u>   | <u>8,914,773</u>   | <u>8,666,454</u>   |
| FUND NET ASSETS - END OF YEAR             | <u>\$6,247,480</u> | <u>\$2,856,156</u> | <u>\$9,103,636</u> | <u>\$8,914,773</u> |

**MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010  
(with comparative totals for 2009)**

|  | Electric<br>Fund         | Water<br>Fund            | Total<br>2010             | Total<br>2009            |
|--|--------------------------|--------------------------|---------------------------|--------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                         |                          |                          |                           |                          |
| Cash received from customers .....                                   | \$2,714,607              | \$ 682,392               | \$3,396,999               | \$3,034,227              |
| Cash paid to suppliers .....   | (1,193,370)              | (213,389)                | (1,406,759)               | (2,787,027)              |
| Cash paid to employees .....   | <u>(252,160)</u>         | <u>(142,728)</u>         | <u>(394,888)</u>          | <u>(427,610)</u>         |
| NET CASH PROVIDED (USED) BY<br>OPERATING ACTIVITIES                  | <u>1,269,077</u>         | <u>326,275</u>           | <u>1,595,352</u>          | <u>(180,410)</u>         |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES:</b> |                          |                          |                           |                          |
| Acquisition and construction of capital assets ....                  | (1,202,808)              | (37,022)                 | (1,239,830)               | (936,057)                |
| Contributions received from developers .....                         |                          | 9,581                    | 9,581                     |                          |
| Revenue bond principal repayment .....                               | (696,943)                | (177,552)                | (874,495)                 | (495,308)                |
| Revenue bond proceeds .....  | 1,200,000                |                          | 1,200,000                 |                          |
| Interest paid .....  | (132,009)                | (92,676)                 | (224,685)                 | (209,216)                |
| Proceeds from sale of assets .....                                   | 175                      |                          | 175                       |                          |
| Cash received from cancelled project .....                           | 46,982                   |                          | 46,982                    |                          |
| Bond issuance costs .....  | <u>(6,644)</u>           | <u>          </u>        | <u>(6,644)</u>            | <u>          </u>        |
| NET CASH USED BY CAPITAL AND<br>RELATED FINANCING ACTIVITIES         | <u>(791,247)</u>         | <u>(297,669)</u>         | <u>(1,088,916)</u>        | <u>(1,640,581)</u>       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                         |                          |                          |                           |                          |
| Proceeds from redemption of investments .....                        |                          |                          |                           | 1,672,808                |
| Interest reinvested .....  | (63)                     | (919)                    | (982)                     | (300,000)                |
| Interest received from investments .....                             | <u>10,318</u>            | <u>5,539</u>             | <u>15,857</u>             | <u>27,318</u>            |
| NET CASH PROVIDED BY<br>INVESTING ACTIVITIES                         | <u>10,255</u>            | <u>4,620</u>             | <u>14,875</u>             | <u>1,400,126</u>         |
| <b>NET INCREASE (DECREASE) IN CASH</b>                               | <b>488,085</b>           | <b>33,226</b>            | <b>521,311</b>            | <b>(420,865)</b>         |
| <b>CASH AND CASH EQUIVALENTS -<br/>BEGINNING OF YEAR .....</b>       | <b><u>364,571</u></b>    | <b><u>201,571</u></b>    | <b><u>566,142</u></b>     | <b><u>987,007</u></b>    |
| <b>CASH AND CASH EQUIVALENTS -<br/>END OF YEAR</b>                   | <b><u>\$ 852,656</u></b> | <b><u>\$ 234,797</u></b> | <b><u>\$1,087,453</u></b> | <b><u>\$ 566,142</u></b> |

MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS - Continued  
FOR THE YEAR ENDED JUNE 30, 2010  
(with comparative totals for 2009)

|  | Electric<br>Fund   | Water<br>Fund     | Total<br>2010      | Total<br>2009       |
|--|--------------------|-------------------|--------------------|---------------------|
| RECONCILIATION OF OPERATING INCOME<br>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:        |                    |                   |                    |                     |
| Operating income .....   | \$ 371,139         | \$ 113,148        | \$ 484,287         | \$ 439,408          |
| Adjustments to reconcile operating income to net<br>cash provided by operating activities: |                    |                   |                    |                     |
| Depreciation .....   | 308,156            | 185,235           | 493,391            | 453,531             |
| Amortization .....   | 7,667              |                   | 7,667              | 5,568               |
| (Increase) decrease in operating assets:   |                    |                   |                    |                     |
| Accounts receivable .....  | (10,480)           | 864               | (9,616)            | (8,599)             |
| Inventory .....  | 657,269            | 1,505             | 658,774            | (456,781)           |
| Prepaid expenses .....   | 1,843              | 17,217            | 19,060             | (20,854)            |
| Other receivables .....  | (25,362)           | 2,554             | (22,808)           | (143,515)           |
| Consumer deposits .....  | 4,168              |                   | 4,168              | (2,526)             |
| CIS improvement fund .....   | (55,649)           |                   | (55,649)           | (42,652)            |
| Sewer fund - district and city .....   | 7,715              |                   | 7,715              | 1,090               |
| Emission allowances .....  | 8,394              |                   | 8,394              | (24,938)            |
| Engine Maintenance .....   | (12,016)           |                   | (12,016)           | (2,000)             |
| Increase (decrease) in operating liabilities:  |                    |                   |                    |                     |
| Accounts payable .....   | (4,288)            | (347)             | (4,635)            | (382,904)           |
| Accrued employee benefits .....  | 2,844              | (1,584)           | 1,260              | (3,539)             |
| Accrued payroll taxes .....  | 1,241              | 52                | 1,293              | 198                 |
| Accrued payroll .....  | 15,794             | 7,179             | 22,973             |                     |
| Accrued sales tax .....  | 1,276              | 452               | 1,728              | 59                  |
| Accrued property tax .....   | (10)               |                   | (10)               | (273)               |
| Accrued wheeling .....   | (6,260)            |                   | (6,260)            | 6,169               |
| Consumer deposits .....  | (4,364)            |                   | (4,364)            | 2,148               |
| NET CASH (USED) PROVIDED BY<br>OPERATING ACTIVITIES  | <u>\$1,269,077</u> | <u>\$ 326,275</u> | <u>\$1,595,352</u> | <u>\$ (180,410)</u> |



MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The financial statements of Milford Municipal Utilities include the Electric and Water enterprise funds which provide services to the residents of the City of Milford. Milford Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's audit covers the primary government only; therefore it does not include financial information concerning the Utilities.

For financial reporting purposes, the Milford Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (b) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Milford Municipal Utilities has no component units.

**Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets reports three categories of net assets:

Invested in Capital Assets, Net of Related Debt - consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets - result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - consist of net assets not meeting the definition of the two preceding categories. Unrestricted Net Assets often have constraints on resources imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2010

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Fund Financial Statements**

Major individual enterprise funds are reported as separate columns in the fund financial statements. The Utilities report the following major enterprise funds:

Electric Fund - The Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounts of Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise funds, the Utilities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of six months or less.

Accounts Receivable

Accounts receivable and revenue are recorded at the time service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which service is provided. Accounts are reviewed annually; accounts considered uncollectable are written off at that time. Management believes there are no material uncollectible accounts at June 30, 2010.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2010

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as expenses or capitalized, if applicable, when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, and equipment, are stated at cost. The report sets forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling, and transportation has been capitalized. The Utilities accounted for existing infrastructure through the use of an independent engineer's report.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

|                           |         |
|---------------------------|---------|
| Building and plant .....  | 20 - 50 |
| Equipment .....           | 7 - 20  |
| Distribution System ..... | 20 - 67 |

Other Assets

CTS acquisition costs are being amortized on a straight-line basis over 25 years, and are presented at the net value.

Loan costs related to issued capital notes are being amortized on a straight-line basis over 7 years, which approximates the effective interest method, and are presented at the net value.

Current Liabilities

The accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. The Utilities' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2010

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting

The Board of Trustees of Milford Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Milford.

Subsequent Events

MMU has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

**2. CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS**

The Utilities' deposits in banks at June 30, 2010, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreement; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no assets classified as investments at June 30, 2010.

Interest Rate Risk - The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utilities.

Credit Risk - The Utilities' investments in Money Market Mutual Funds are unrated.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2010

**3. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2010 was as follows:

| <u>Electric Fund</u>                            | <u>Electric Plant</u>        |                    |                  | <u>Ending<br/>Balance</u> |
|---|------------------------------|--------------------|------------------|---------------------------|
|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>   | <u>Deletions</u> |                           |
| CAPITAL ASSETS NOT BEING<br>DEPRECIATED:        |                              |                    |                  |                           |
| Land .....                                      | \$ 58,654                    |                    |                  | \$ 58,654                 |
| Construction in progress .....                  | <u>1,020,134</u>             | <u>\$1,007,458</u> |                  | <u>2,027,592</u>          |
| TOTAL CAPITAL ASSETS<br>NOT BEING DEPRECIATED   | <u>1,078,788</u>             | <u>1,007,458</u>   |                  | <u>2,086,246</u>          |
| CAPITAL ASSETS BEING<br>DEPRECIATED:            |                              |                    |                  |                           |
| Production Plant:                               |                              |                    |                  |                           |
| Buildings .....                                 | 401,592                      |                    |                  | 401,592                   |
| Machinery and equipment .....                   | 689,536                      | 50,240             |                  | 739,776                   |
| Accessory electric equipment                    | 1,183,487                    |                    |                  | 1,183,487                 |
| Neal #4 .....                                   | 1,294,415                    | 9,418              | \$(6,337)        | 1,297,496                 |
| Common transmission system                      | 1,661,662                    | 45,881             |                  | 1,707,543                 |
| Distribution Plant:                             |                              |                    |                  |                           |
| Distribution facilities .....                   | 5,325,562                    | 76,368             |                  | 5,401,930                 |
| Street lights and signal systems                | 252,558                      | 10,793             |                  | 263,351                   |
| General Plant:                                  |                              |                    |                  |                           |
| Transportation equipment .....                  | 386,669                      |                    |                  | 386,669                   |
| Other equipment .....                           | <u>143,033</u>               | <u>2,650</u>       |                  | <u>145,683</u>            |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED       | 11,338,514                   | 195,350            | (6,337)          | 11,527,527                |
| Less accumulated depreciation ....              | <u>6,066,046</u>             | <u>308,156</u>     | <u>(6,337)</u>   | <u>6,367,865</u>          |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED - NET | <u>5,272,468</u>             | <u>(112,806)</u>   |                  | <u>5,159,662</u>          |
| TOTAL CAPITAL ASSETS - NET                      | <u>\$ 6,351,256</u>          | <u>\$ 894,652</u>  |                  | <u>\$ 7,245,908</u>       |

Construction in progress at June 30, 2010 consisted of costs associated with substation and distribution system upgrades.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2010

**3. CAPITAL ASSETS - Continued**

Capital assets activity for the year ended June 30, 2010 was as follows:

| <u>Water Fund</u>                               | <u>Water Utility Plant</u>   |                    |                  | <u>Ending<br/>Balance</u> |
|---|------------------------------|--------------------|------------------|---------------------------|
|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>   | <u>Deletions</u> |                           |
| CAPITAL ASSETS NOT BEING<br>DEPRECIATED:        |                              |                    |                  |                           |
| Land .....                                      | \$ 58,144                    |                    |                  | \$ 58,144                 |
| TOTAL CAPITAL ASSETS<br>NOT BEING DEPRECIATED   | <u>58,144</u>                |                    |                  | <u>58,144</u>             |
| CAPITAL ASSETS BEING<br>DEPRECIATED:            |                              |                    |                  |                           |
| Production Plant:                               |                              |                    |                  |                           |
| Buildings .....                                 | 3,193,217                    |                    |                  | 3,193,217                 |
| Intakes .....                                   | 85,410                       |                    |                  | 85,410                    |
| Equipment .....                                 | 1,124,216                    | \$ 10,288          |                  | 1,134,504                 |
| Mains .....                                     | 1,208,481                    | 1,729              |                  | 1,210,210                 |
| Wells .....                                     | 198,130                      |                    |                  | 198,130                   |
| Storage and Distribution Plant:                 |                              |                    |                  |                           |
| Towers .....                                    | 481,619                      |                    |                  | 481,619                   |
| Mains, hydrants, and service ..                 | 219,540                      |                    |                  | 219,540                   |
| Meters .....                                    | 219,973                      | 17,166             |                  | 237,139                   |
| General Plant:                                  |                              |                    |                  |                           |
| Tools and work equipment .....                  | 17,910                       | 7,839              |                  | 25,749                    |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED       | <u>6,748,496</u>             | <u>37,022</u>      |                  | <u>6,785,518</u>          |
| Less accumulated depreciation ....              | <u>2,571,189</u>             | <u>185,235</u>     |                  | <u>2,756,424</u>          |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED - NET | <u>4,177,307</u>             | <u>(148,213)</u>   |                  | <u>4,029,094</u>          |
| TOTAL CAPITAL ASSETS - NET                      | <u>\$ 4,235,451</u>          | <u>\$(148,213)</u> |                  | <u>\$ 4,087,238</u>       |
| TOTAL BUSINESS TYPE<br>CAPITAL ASSETS - NET     | <u>\$10,586,707</u>          | <u>\$ 746,439</u>  |                  | <u>\$11,333,146</u>       |

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2010

**3. CAPITAL ASSETS - Continued**

Capital assets activity for the year ended June 30, 2009 was as follows:

| <u>Electric Fund</u>                            | <u>Electric Plant</u>        |                   |                     | <u>Ending<br/>Balance</u> |
|---|------------------------------|-------------------|---------------------|---------------------------|
|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>  | <u>Deletions</u>    |                           |
| CAPITAL ASSETS NOT BEING<br>DEPRECIATED:        |                              |                   |                     |                           |
| Land .....                                      | \$ 58,654                    |                   |                     | \$ 58,654                 |
| Construction in progress .....                  | <u>842,609</u>               | <u>\$ 320,238</u> | <u>\$ (142,713)</u> | <u>1,020,134</u>          |
| TOTAL CAPITAL ASSETS<br>NOT BEING DEPRECIATED   | <u>901,263</u>               | <u>320,238</u>    | <u>(142,713)</u>    | <u>1,078,788</u>          |
| CAPITAL ASSETS BEING<br>DEPRECIATED:            |                              |                   |                     |                           |
| Production Plant:                               |                              |                   |                     |                           |
| Buildings .....                                 | 391,242                      | 10,350            |                     | 401,592                   |
| Machinery and equipment .....                   | 682,107                      | 7,429             |                     | 689,536                   |
| Accessory electric equipment                    | 764,155                      | 419,332           |                     | 1,183,487                 |
| Neal #4 .....                                   | 1,285,289                    | 10,965            | (1,839)             | 1,294,415                 |
| Common transmission system                      | 1,578,989                    | 82,673            |                     | 1,661,662                 |
| Distribution Plant:                             |                              |                   |                     |                           |
| Distribution facilities .....                   | 5,245,328                    | 80,234            |                     | 5,325,562                 |
| Street lights and signal systems                | 249,151                      | 3,407             |                     | 252,558                   |
| General Plant:                                  |                              |                   |                     |                           |
| Transportation equipment .....                  | 305,026                      | 81,643            |                     | 386,669                   |
| Other equipment .....                           | <u>143,033</u>               |                   |                     | <u>143,033</u>            |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED       | <u>10,644,320</u>            | <u>696,033</u>    | <u>(1,839)</u>      | <u>11,338,514</u>         |
| Less accumulated depreciation ....              | <u>5,796,041</u>             | <u>271,844</u>    | <u>(1,839)</u>      | <u>6,066,046</u>          |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED - NET | <u>4,848,279</u>             | <u>424,189</u>    |                     | <u>5,272,468</u>          |
| TOTAL CAPITAL ASSETS - NET                      | <u>\$ 5,749,542</u>          | <u>\$ 744,427</u> | <u>\$ (142,713)</u> | <u>\$ 6,351,256</u>       |

Construction in progress at June 30, 2009 consisted of costs associated with substation and distribution system upgrades.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2010

**3. CAPITAL ASSETS - Continued**

|   | Water Utility Plant          |                   |                     |                           |
|---|------------------------------|-------------------|---------------------|---------------------------|
| <b><u>Water Fund</u></b>                        | <u>Beginning<br/>Balance</u> | <u>Additions</u>  | <u>Deletions</u>    | <u>Ending<br/>Balance</u> |
| CAPITAL ASSETS NOT BEING<br>DEPRECIATED:        |                              |                   |                     |                           |
| Land .....                                      | \$ 58,144                    |                   |                     | \$ 58,144                 |
| Construction in progress .....                  | <u>146,251</u>               |                   | <u>\$ (146,251)</u> |                           |
| TOTAL CAPITAL ASSETS<br>NOT BEING DEPRECIATED   | <u>204,395</u>               |                   | <u>(146,251)</u>    | <u>58,144</u>             |
| CAPITAL ASSETS BEING<br>DEPRECIATED:            |                              |                   |                     |                           |
| Production Plant:                               |                              |                   |                     |                           |
| Buildings .....                                 | 3,212,918                    |                   | (19,701)            | 3,193,217                 |
| Intakes .....                                   | 79,733                       | \$ 5,677          |                     | 85,410                    |
| Equipment .....                                 | 1,104,195                    | 20,021            |                     | 1,124,216                 |
| Mains .....                                     | 1,176,279                    | 32,202            |                     | 1,208,481                 |
| Wells .....                                     | 198,130                      |                   |                     | 198,130                   |
| Storage and Distribution Plant:                 |                              |                   |                     |                           |
| Towers .....                                    | 319,329                      | 162,290           |                     | 481,619                   |
| Mains, hydrants, and service ..                 | 219,540                      |                   |                     | 219,540                   |
| Meters .....                                    | 210,841                      | 9,132             |                     | 219,973                   |
| General Plant:                                  |                              |                   |                     |                           |
| Tools and work equipment .....                  | <u>16,939</u>                | <u>971</u>        |                     | <u>17,910</u>             |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED       | <u>6,537,904</u>             | <u>230,293</u>    | <u>(19,701)</u>     | <u>6,748,496</u>          |
| Less accumulated depreciation ....              | <u>2,389,502</u>             | <u>181,687</u>    |                     | <u>2,571,189</u>          |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED - NET | <u>4,148,402</u>             | <u>48,606</u>     | <u>(19,701)</u>     | <u>4,177,307</u>          |
| TOTAL CAPITAL ASSETS - NET                      | <u>\$ 4,352,797</u>          | <u>\$ 48,606</u>  | <u>\$ (165,952)</u> | <u>\$ 4,235,451</u>       |
| TOTAL BUSINESS TYPE<br>CAPITAL ASSETS - NET     | <u>\$10,102,339</u>          | <u>\$ 793,033</u> | <u>\$ (308,665)</u> | <u>\$10,586,707</u>       |



MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2010

**4. LONG-TERM DEBT**

A summary of the changes in long-term debt for the year ended June 30, 2010 is as follows:

|                                 | <u>Beginning<br/>Balance</u> | <u>Additions</u>          | <u>Reductions</u>         | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|---------------------------------|------------------------------|---------------------------|---------------------------|---------------------------|--------------------------------|
| Electric Fund:                  |                              |                           |                           |                           |                                |
| Series 2007 revenue notes ..... | \$ 462,652                   |                           | \$(462,652)               |                           |                                |
| Series 2008 revenue notes ..... | 1,768,605                    |                           | (94,156)                  | \$1,674,449               | \$ 97,770                      |
| Series 2009 revenue notes ..... |                              | \$1,200,000               | (140,135)                 | 1,059,865                 | 156,466                        |
| Total electric revenue notes    | <u>2,231,257</u>             | <u>1,200,000</u>          | <u>(696,943)</u>          | <u>2,734,314</u>          | <u>254,236</u>                 |
| Water Fund:                     |                              |                           |                           |                           |                                |
| Series 2003 revenue notes ..... | 806,921                      | -                         | (73,565)                  | 733,356                   | 77,301                         |
| Series 2005 revenue notes ..... | <u>1,427,018</u>             | -                         | <u>(103,987)</u>          | <u>1,323,031</u>          | <u>132,452</u>                 |
| Total water revenue notes       | <u>2,233,939</u>             | -                         | <u>(177,552)</u>          | <u>2,056,387</u>          | <u>209,753</u>                 |
| <b>TOTAL REVENUE NOTES</b>      | <b><u>\$4,465,196</u></b>    | <b><u>\$1,200,000</u></b> | <b><u>\$(874,495)</u></b> | <b><u>\$4,790,701</u></b> | <b><u>\$463,989</u></b>        |

A summary of the changes in long-term debt for the year ended June 30, 2009 is as follows:

|                                 | <u>Beginning<br/>Balance</u> | <u>Additions</u>   | <u>Reductions</u>         | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|---------------------------------|------------------------------|--------------------|---------------------------|---------------------------|--------------------------------|
| Electric Fund:                  |                              |                    |                           |                           |                                |
| Series 2007 revenue notes ..... | \$ 698,074                   | \$ -               | \$(235,422)               | \$ 462,652                | \$186,478                      |
| Series 2008 revenue notes ..... | <u>1,858,222</u>             | -                  | <u>(89,617)</u>           | <u>1,768,605</u>          | <u>93,920</u>                  |
| Total electric revenue notes    | <u>2,556,296</u>             | -                  | <u>(325,039)</u>          | <u>2,231,257</u>          | <u>280,398</u>                 |
| Water Fund:                     |                              |                    |                           |                           |                                |
| Series 2003 revenue notes ..... | 877,550                      | -                  | (70,629)                  | \$ 806,921                | \$ 76,034                      |
| Series 2005 revenue notes ..... | <u>1,526,658</u>             | -                  | <u>(99,640)</u>           | <u>1,427,018</u>          | <u>102,408</u>                 |
| Total water revenue notes       | <u>2,404,208</u>             | -                  | <u>(170,269)</u>          | <u>2,233,939</u>          | <u>178,442</u>                 |
| <b>TOTAL REVENUE NOTES</b>      | <b><u>\$4,960,504</u></b>    | <b><u>\$ -</u></b> | <b><u>\$(495,308)</u></b> | <b><u>\$4,465,196</u></b> | <b><u>\$458,840</u></b>        |

The resolutions concerning the issuance of the above noted revenue notes all include requirements for the Utility to maintain Sinking and Reserve Funds. United Community Bank, the sole owner of the notes has waived these fund requirements.

**Electric Fund**

During the year ended June 30, 2007, the Utility issued electric revenue refunding notes in the amount of \$925,000 to refund the 1997 issue prior to maturity to realize debt service savings due to lower interest rates on the new issue. The notes bear interest of 4.90% with monthly payments required of \$17,443.06, including interest, and mature April 1, 2012. This notes were paid in full July 2009.

During the year ended June 30, 2008, the utility issued electric revenue notes in the amount of \$1,900,000 for the construction costs related to improvements and extension to the Municipal Electric Utility. The notes bear interest of 4.95% with monthly payments required of \$14,965.38, including interest. The last monthly payment, which matures January 1, 2013, is a lump sum payment of \$1,429,065, including interest.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2010

**4. LONG-TERM DEBT - Continued**

**Electric Fund - Continued**

During the year ended June 30, 2010, the Utility issued electric revenue notes in the amount of \$1,200,000 for the construction costs related to improvements and extension to the Municipal Electric Utility and to refund the Series 2007 Revenue Notes. The notes bear interest of 4.00% with monthly payments required of \$16,381, including interest, and mature July 1, 2016.

A summary of the Electric Fund's June 30, 2010 long-term indebtedness is as follows:

|                   | <u>Series 2008 Revenue Notes</u> |                  | <u>Series 2009 Revenue Notes</u> |                  |
|-------------------|----------------------------------|------------------|----------------------------------|------------------|
|                   | <u>Principal</u>                 | <u>Interest</u>  | <u>Principal</u>                 | <u>Interest</u>  |
| 2011 .....        | \$ 97,770                        | \$ 80,908        | \$ 156,467                       | \$ 39,536        |
| 2012 .....        | 103,673                          | 75,911           | 163,431                          | 33,139           |
| 2013 .....        | 1,473,006                        | 41,874           | 170,089                          | 26,480           |
| 2014 .....        |                                  |                  | 177,019                          | 19,551           |
| 2015 .....        |                                  |                  | 184,231                          | 12,339           |
| 2016 - 2020 ..... |                                  |                  | <u>208,628</u>                   | <u>4,887</u>     |
| Total             | <u>\$1,674,449</u>               | <u>\$198,693</u> | <u>\$1,059,865</u>               | <u>\$135,932</u> |

**Water Fund**

On June 24, 2003, the Utility issued a Water Revenue Refinancing Capital Loan Note - Series 2003, in the amount of \$1,200,000. The note bears a five-year adjustable rate based on five year US Treasury Bonds maturing most closely to July 1, 2008 and July 1, 2013, respectively, plus 100 basis points. The rate adjusted from 3.50% to 4.34% on July 1, 2008. The note requires monthly payments of \$8,579, including interest, and matures February 1, 2019.

On May 25, 2005 the Utility issued Water Revenue Capital Loan Notes in the amount of \$1,800,000. The notes bear a five-year adjustable rate based on five year US Treasury Bonds maturing most closely to July 1, 2010 and July 1, 2013, respectively, plus 25 basis points. The rate adjusted from 4.25% to 2.21% on July 1, 2010. The notes require monthly payments of \$13,433, including interest, and mature July 1, 2013.

The Series 2003 and Series 2005 Capital Loan Notes are secured by future net revenues of the Water Utility.

A summary of the Water Fund's June 30, 2010 long-term indebtedness is as follows:

|                   | <u>Series 2003 Revenue Notes</u> |                  | <u>Series 2005 Revenue Notes</u> |                  |
|-------------------|----------------------------------|------------------|----------------------------------|------------------|
|                   | <u>Principal</u>                 | <u>Interest</u>  | <u>Principal</u>                 | <u>Interest</u>  |
| 2011 .....        | \$ 77,301                        | \$ 30,303        | \$ 132,452                       | \$ 30,175        |
| 2012 .....        | 80,724                           | 26,880           | 137,703                          | 24,923           |
| 2013 .....        | 84,298                           | 23,306           | 140,778                          | 21,848           |
| 2014 .....        | 88,030                           | 19,574           | 143,921                          | 18,706           |
| 2015 .....        | 91,927                           | 15,676           | 147,133                          | 15,493           |
| 2016 - 2020 ..... | <u>311,076</u>                   | <u>21,917</u>    | <u>621,044</u>                   | <u>28,362</u>    |
| Total             | <u>\$733,356</u>                 | <u>\$137,656</u> | <u>\$1,323,031</u>               | <u>\$139,507</u> |

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2010

**5. PENSION AND RETIREMENT BENEFITS**

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary, and the Utilities are required to contribute 6.65% of covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$25,963, \$23,487, and \$23,464, respectively, equal to the required contributions for each year.

**6. RATES**

The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Effective June 20, 2010, the Electric Utility increased user rates for all consumption by 3%.

Effective December 17, 2009, the Water Utility increased user rates for all consumption with incremental increases over the next three years.

**7. LEASES**

Under a joint ownership agreement with other utilities, the Electric Utility has a 0.347% undivided interest in a 640 MW electric generation station known as George Neal Generating Station No. 4. The Electric Utility leases electrical generation capacity of its share of the Neal 4 plant under operating leases to other utilities or their associations. The revenues from such leases are included in operating income. The Utility's investment in these facilities is included in capital assets in service and is set forth in Note 3. Operating costs associated with this plant and depreciation are reflected in the statement of activities.

The Electric Utility's 0.347% ownership interest in George Neal Generating Station No. 4 represents a total investment of \$1,297,496 included in utility plant in service with \$1,098,213 included in accumulated depreciation.

MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2010

**8. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Milford Municipal Utilities implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2010. MMU operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are seven active and no retired members in the plan. Participants must be age 55 or older at retirement. Coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy. Based on several simplifying assumptions made under the alternative measurement method allowed by GASB Statement No. 45, management of MMU has determined there is no material other postemployment benefit liability at June 30, 2010.

**9. COMPENSATED ABSENCES**

MMU employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement, or death. A liability is recorded when incurred in the government-wide and enterprise fund financial statements and computed based on rates of pay in effect at June 30, 2010.

Employees also accumulate a limited amount of earned but unused sick leave. An employee does not receive any pay for sick leave upon termination, retirement, or death. Since the amount of sick leave to be used is not determinable, no liability has been accrued.

**10. RISK MANAGEMENT**

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**11. COMMITMENTS**

During 2010, the Electric Utility entered into construction contracts totaling \$917,978 for electric improvements to be completed in following years with a balance remaining of \$105,671.

## **REQUIRED SUPPLEMENTARY INFORMATION**

MILFORD MUNICIPAL UTILITIES  
BUDGETARY COMPARISON SCHEDULE OF  
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2010

|                                       | <u>Actual</u>      | <u>Original/<br/>Final<br/>Budget</u> | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|---------------------------------------|--------------------|---------------------------------------|---|
| REVENUE:                              |                    |                                       |   |
| Charges for services .....            | \$3,421,904        | \$3,657,866                           | \$(235,962)                                     |
| Non-operating .....                   | <u>25,613</u>      | <u>33,800</u>                         | <u>(8,187)</u>                                  |
| TOTAL REVENUE                         | <u>3,447,517</u>   | <u>3,691,666</u>                      | <u>(244,149)</u>                                |
| EXPENSES:                             |                    |                                       |   |
| Electric .....                        | 2,600,786          | 2,665,701                             | 64,915  |
| Water .....                           | <u>657,868</u>     | <u>690,105</u>                        | <u>32,237</u>                                   |
| TOTAL EXPENSES                        | <u>3,258,654</u>   | <u>3,355,806</u>                      | <u>97,152</u>                                   |
| NET CHANGE IN NET ASSETS              | 188,863            | 335,860                               | <u>\$(146,997)</u>                              |
| NET ASSETS AT BEGINNING OF YEAR ..... | <u>8,914,773</u>   | <u>8,997,357</u>                      |   |
| NET ASSETS AT END OF YEAR             | <u>\$9,103,636</u> | <u>\$9,333,217</u>                    |   |

MILFORD MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the utility.

In accordance with the Code of Iowa, the Milford Municipal Utilities annually adopts a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. All Utilities' disbursements are included in business-type activities function. During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

## OTHER SUPPLEMENTARY INFORMATION



MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND  
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND  
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

|  | <u>2010</u>      | <u>2009</u>      |
|--|------------------|------------------|
| DIRECT COSTS:                                      |                  |                  |
| Distribution Maintenance .....                     | \$ 20,806        | \$ 20,298        |
| Equipment maintenance .....                        | 25,904           | 26,282           |
| Neal #4 charges - coal, oil, power generator ..... | 302,369          | 247,109          |
| Purchased power .....                              | 5,660            | 5,721            |
| Purchased power - NIMECA .....                     | 651,621          | 708,340          |
| Purchased power - WAPA .....                       | 368,098          | 309,303          |
| Wheeling .....                                     | 17,090           | 17,549           |
| TOTAL DIRECT COSTS                                 | <u>1,391,548</u> | <u>1,334,602</u> |
| OPERATING EXPENSES:                                |                  |                  |
| Salaries .....                                     | 267,954          | 236,331          |
| Small tools and supplies .....                     | 8,578            | 15,794           |
| Sub-contractor .....                               | 6,567            | 4,972            |
| Vehicle expense .....                              | 19,653           | 27,785           |
| Miscellaneous operating expenses .....             | 4,277            | 6,555            |
| TOTAL OPERATING EXPENSES                           | <u>307,029</u>   | <u>291,437</u>   |

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND  
 ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND - Continued  
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

|  | <u>2010</u>            | <u>2009</u>            |
|--|------------------------|------------------------|
| ADMINISTRATIVE EXPENSES:               |                        |                        |
| Advertising .....                      | \$ 5,471               | \$ 227                 |
| Amortization .....                     | 6,798                  | 5,568                  |
| Bad debts .....                        | 3,669                  | 2,536                  |
| Building maintenance - office .....    | 13,195                 | 12,384                 |
| Building maintenance - mowing .....    | 4,204                  | 3,042                  |
| Community development .....            | 48,749                 | 3,598                  |
| Computer repairs and maintenance ..... | 5,329                  | 2,862                  |
| Computer supplies and programs .....   | 3,552                  | 3,629                  |
| Depreciation .....                     | 308,156                | 271,844                |
| Director fees .....                    | 5,276                  | 3,393                  |
| Dues and subscriptions .....           | 5,334                  | 6,039                  |
| Education and safety .....             | 1,377                  | 292                    |
| Employee benefits .....                | 42,874                 | 31,608                 |
| Insurance - general .....              | 31,824                 | 31,959                 |
| Laundry and uniforms .....             | 1,139                  | 1,297                  |
| Legal and professional .....           | 22,240                 | 32,982                 |
| Maintenance - office equipment .....   | 338                    | 170                    |
| Miscellaneous .....                    | 36                     | 693                    |
| Office supplies .....                  | 7,167                  | 8,944                  |
| Payroll taxes - FICA and IPERS .....   | 34,853                 | 32,368                 |
| Postage .....                          | 5,211                  | 5,846                  |
| Property taxes .....                   | 15,234                 | 15,289                 |
| Rebates .....                          | 20,979                 | 21,784                 |
| Supplies .....                         | 675                    | 309                    |
| Sales tax paid .....                   | 68,737                 | 62,633                 |
| Telephone .....                        | 3,622                  | 3,126                  |
| Travel .....                           | 3,966                  | 1,443                  |
| Utilities and sanitation .....         | 2,008                  | 314                    |
| Inventory adjustment .....             | 1,201                  | 1,782                  |
| TOTAL ADMINISTRATIVE EXPENSES          | <u>673,214</u>         | <u>567,961</u>         |
| <br>TOTAL                              | <br><u>\$2,371,791</u> | <br><u>\$2,194,000</u> |

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND  
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

|  | <u>2010</u>    | <u>2009</u>    |
|--|----------------|----------------|
| DIRECT COSTS:                          |                |                |
| Distribution Maintenance .....         | \$ 9,413       | \$ 7,082       |
| Equipment maintenance .....            | 4,849          | 11,624         |
| Lab .....                              | 11,116         | 10,735         |
| Plant maintenance .....                | 167            | 1,079          |
| Product - chlorine and fluoride .....  | 34,216         | 26,293         |
| Purchased power .....                  | 28,591         | 27,214         |
| Sewer charges .....                    | <u>1,913</u>   | <u>5,447</u>   |
| TOTAL DIRECT COSTS                     | <u>90,265</u>  | <u>89,474</u>  |
| OPERATING EXPENSES:                    |                |                |
| Salaries .....                         | 149,907        | 136,589        |
| Small tools and supplies .....         | 834            | 1,220          |
| Sub-contractor .....                   | 4,062          | 7,918          |
| Vehicle expense .....                  | 3,998          | 2,792          |
| Miscellaneous operating expenses ..... | <u>765</u>     | <u>      </u>  |
| TOTAL OPERATING EXPENSES               | <u>159,566</u> | <u>148,519</u> |

MILFORD MUNICIPAL UTILITIES  
 SCHEDULE OF DIRECT COSTS, OPERATING EXPENSES, AND  
 ADMINISTRATIVE EXPENSES FOR THE WATER FUND - Continued  
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

|  | <u>2010</u>           | <u>2009</u>           |
|--|-----------------------|-----------------------|
| ADMINISTRATIVE EXPENSES:               |                       |                       |
| Advertising .....                      | \$ 163                |                       |
| Bad debts .....                        | 1,072                 | \$ 408                |
| Building maintenance - office .....    | 772                   | 679                   |
| Building maintenance - mowing .....    | 1,956                 | 3,065                 |
| Community development .....            | 1,643                 | 214                   |
| Computer repairs and maintenance ..... | 3,243                 | 3,277                 |
| Computer supplies and programs .....   |                       | 313                   |
| Depreciation .....                     | 185,235               | 181,687               |
| Director fees .....                    | 3,082                 | 2,450                 |
| Dues and subscriptions .....           | 1,347                 | 335                   |
| Education and safety .....             | 832                   | 638                   |
| Employee benefits .....                | 22,654                | 22,028                |
| Insurance - general .....              | 19,649                | 21,847                |
| Laundry and uniforms .....             | 745                   | 670                   |
| Legal and professional .....           | 6,717                 | 10,006                |
| Maintenance - office equipment .....   | 338                   | 170                   |
| Miscellaneous .....                    | 42                    | 9                     |
| Office supplies .....                  | 7,171                 | 8,643                 |
| Payroll taxes - FICA and IPERS .....   | 20,441                | 18,981                |
| Postage .....                          | 5,342                 | 5,539                 |
| Supplies .....                         | 587                   | 158                   |
| Sales tax paid .....                   | 31,355                | 30,999                |
| Telephone .....                        | 922                   | 1,150                 |
| Utilities and sanitation .....         | 697                   | 159                   |
| Inventory adjustment .....             | (10)                  | 805                   |
| TOTAL ADMINISTRATIVE EXPENSES          | <u>315,995</u>        | <u>314,230</u>        |
| <br>TOTAL                              | <br><u>\$ 565,826</u> | <br><u>\$ 552,223</u> |

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Milford Municipal Utilities  
Milford, IA 51351

We have audited the financial statements of the Milford Municipal Utilities as of and for the year ended June 30, 2010, and have issued our report thereon dated November 1, 2010. We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Milford Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Milford Municipal Utilities' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weakness have been identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Milford Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Milford and other parties to whom the Milford Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Milford Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Winthu, Stove & Co., LLP*

November 1, 2010

MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010

**Part I: Findings Related to the Financial Statements**

**Instances of Noncompliance:**

No matters were noted

**Reportable Condition:**

I-A-10    Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2010

**Part II: Other Findings Related to Required Statutory Reporting**

- II-A-10 Certified Budget - Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted in the business type activities function.
- II-B-10 Questionable Disbursements - No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-10 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.
- II-D-10 Business Transactions - No business transactions between the Utilities and Utilities' officials or employees were noted.
- II-E-10 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-10 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-10 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-H-10 Revenue Notes - The Utilities has complied with the electric and water revenue note provisions or has received a waiver of the requirements from the holder of the notes.